

## UNIT 3 TOPIC 4

### Personal Financial Management

#### **LEARNING OBJECTIVES:**

- 3.4.1 Explain the Navy's Personal Financial Management Program.
- 3.4.2 Establish and maintain sound money management practices.
- 3.4.3 Identify the agencies available for financial assistance or counseling.
- 3.4.4 Identify possible repercussions of financial irresponsibility.
- 3.4.5 Identify tools and strategies for saving and investing.
- 3.4.6 Explain how core values support sound financial management.

#### **REFERENCES:**

- 1. OPNAVINST 1740.5
- 2. U.S. NAVY's Personal Financial Management Standardized Curriculum (PERS 662)
- 3. OPNAVINST 1740.1 Family Service Center Program
- 4. Command Financial Specialist Training Manual NAVPERS 15608C
- 5. [www.lifelines4qol.org](http://www.lifelines4qol.org)
- 6. [www.moneycentral.msn.com](http://www.moneycentral.msn.com)

#### **SLIDES:**

- 3-4-1 Personal Financial Management
- 3-4-2 The Navy Personal Financial Management Program
- 3-4-3 Saving and Investing
- 3-4-4 Some Secrets to Successful Saving
- 3-4-5 Just A Thought
- 3-4-6 Is It Worth It?
- 3-4-7 Save, Save, Save
- 3-4-8 Think Savings
- 3-4-9 Other Ways To Save
- 3-4-10 Keys To Saving
- 3-4-11 Saving and Investing Tools
- 3-4-12 Saving and Investing Tools II

- 3-4-13 Thrift Savings Plan
- 3-4-14 Thrift Savings Plan II
- 3-4-15 Thrift Savings Plan III
- 3-4-16 CSB/Redux
- 3-4-17 CSB/Redux II
- 3-4-18 Strategies and Practical Tips
- 3-4-19 Core Values and Your Financial Planning
- 3-4-20 Summary

#### **CASE STUDIES:**

None

#### **VIDEO TAPES:**

TSP Video

#### **NOTES TO THE FACILITATOR:**

The main points of this topic are:

- \$ The Navy's Personal Financial Management Program
- \$ Savings, why it is good, and how to do it
- \$ Strategies and tools for investing
- \$ Thrift Savings Plan and CSB/Redux
- \$ Investment considerations
- \$ Recognizing Core Values in your financial responsibilities

**I. INTRODUCTION**

- A. Management of personal finances is becoming increasingly difficult for military members in today's complex and sophisticated marketplace.
- B. Easy credit, high-pressure sales tactics and clever advertising in stores, Internet, television, and mail pull consumers into buying things that they don't need or that they haven't properly shopped for the best value or deal.
- C. Financial difficulties experienced by Sailors have had a significant negative impact on the Navy. In a recent survey, more than 20% of the enlisted force reported tough financial conditions and over half reported difficulty managing expenses during deployment.
- D. Lots of studies have shown that financial problems are a large source of stress and should be managed properly to avoid having to deal with such issues.
- E. If you are just starting out in the Navy, you may be putting off thinking about your financial situation until you have more time or money. But having no financial plan can lead to:
  - \$ Habitual spending
  - \$ Bad checks
  - \$ Over use of credit
  - \$ Overdue notices

**SHOW SLIDE 3-4-1 PERSONAL FINANCIAL MANAGEMENT****INSTRUCTOR NOTE:**

Begin class by facilitating a discussion about the importance of managing finances. Point out that:

1. It is a leading cause of divorce and 50% of military members have some level of financial difficulty at one time or the other.
2. Navy is committed to providing training but it takes individual initiative to 'do the right thing'.
3. There are counselors on board and at the Fleet and Family Support Center.

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>F. Bottom line – Begin planning now to avoid placing yourself and your family in financial difficulty, particularly bankruptcy. Successful management of financial and personal affairs requires careful planning and budgeting.</p> <p>G. There are many financial services and other information resources available to help keep your finances on track. The Command Financial Specialist is an excellent starting point for information.</p> <p>H. This lesson will present an overview of points regarding savings and investments and tips on how to build your budget to accommodate for this.</p> <p><b>II. THE NAVY’S PERSONAL FINANCIAL MANAGEMENT PROGRAM</b></p> <p>A. Who cares?</p> <ul style="list-style-type: none"> <li>\$ The Navy cares and is committed to providing you with proper financial responsibility training. However, personal finances require individual commitment and knowledge of the professional ramifications.</li> <li>\$ The Navy’s Personal Financial Management Program includes training at accession point training sites and continues through to the command General Military Training Program.</li> <li>\$ The Command Financial Specialist Program was established by OPNAVINST 1740.5 to</li> </ul>	<p><b>SHOW SLIDE 3-4-2 THE NAVY PERSONAL FINANCIAL MANAGEMENT PROGRAM</b></p> <p><b>FACILITATOR NOTE:</b> The program is required for all shore, surface, sub-surface, and aviation commands worldwide. Presentations are also available through the Navy Fleet and Family Support Center for family members of military personnel.</p> <p><b>DISCUSSION QUESTION:</b> What is a Command Financial Specialist?</p> <p><b>ANSWER:</b> Review OPNAVINST 1740.5</p>

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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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provide financial education training.

B. Three reasons to be concerned about your finances:

1. To keep money in your pocket (by developing good spending and saving habits) and
2. Navy policy requires you to stay financially afloat. NAVPERSCOM Manual Article 6210140 states that financial mismanagement and/or irresponsibility are grounds to:

- \$ Lose a security clearance.

- \$ Be removed from NEC (Navy Enlisted Classification Code).

- \$ Affect duty assignment and cause failure to screen for overseas duty.

- \$ Have wages garnished from paycheck.

- \$ Lose re-enlistment privileges and SRB (Selective Re-enlistment Bonus).

- \$ Have disciplinary action taken by the command.

- \$ Be administratively discharged.

3. You need it! (We all do)

a. This is a hard sale lesson,

- \$ To ask you to think about how you spend your money,

- \$ To ask you to think beyond this weekend.



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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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3. The key to successful investing is to invest over a long period of time and to start early. And the first rule of saving money is to “Pay yourself First!” You will not be able to start saving money unless you start paying yourself as if it were a bill each month. A good goal to shoot for is 10% of your take home pay.
4. Not included in that 10% should be an emergency fund if you should ever lose your health or your job, you need to have money to fall back on. Your emergency fund should be anywhere from three to six months worth of living expenses. To figure this out, add up all your fixed expenses like rent, car payments, credit card bills, etc.
5. Is it really possible to make a million?

**“SO WHO WANTS TO BE A  
MILLIONAIRE?”**

**On a military paycheck?**

**Regis Philbin where are you?**

**HIGHLIGHT THE NEED FOR SAVING AND INVESTING. EVEN IF YOU START SMALL, IT’S A START. \$5, \$10, \$25 EITHER WEEKLEY OR MONTHLY.**

**THE KEY IS TO BE CONSISTENT WITH PUTTING AWAY MONEY FOR SAVINGS AND LEAVE THE MONEY ALONE TO GROW.**

- a. If you would like to have a million dollars waiting for you when you hit the legal age of retirement, 65, it is very simple to do! You see-if you start when you are 20, you have to invest only about \$95 dollars a month. However, if you wait until you are 25 that amount almost doubles. Wait until you are 40, and you will have to come up with over \$700 every month to make a million by age 65.
- b. Do you see how important it is to save now? It is never too early and seldom too late to start saving and investing.
- c. Let's look at this saving and investing thing another way. Look at this graphic:
  - \$ If you were to start putting away just \$50 at the beginning of each month in a bank account that earns 3% each year in interest, after one year you would have a total of \$609.
  - \$ How much would you have after 10 years? \$7,004
  - \$ How about 30 years? \$29,209
  - \$ How about 40 years? \$46,418
  - \$ You would have put away a total of \$24,000, but would end up with \$46,418 – almost double

**SHOW SLIDE 3-4-5 JUST A THOUGHT**

**SHOW SLIDE 3-4-6 IS IT WORTH IT?**

- d. If you doubled the interest rate in the example above to 10% for that same \$50 month:
- a

- 1 year - \$633
- 10 years - \$10,327
- 30 years - \$113,966 (compared to \$29,209 at 3%)
- 40 years - After putting in \$24,000 your money would have grown to \$318,839

**How did this happen you ask?** You left the money alone to grow including any interest; that is called compound interest and time.

**B. SAVE, SAVE, SAVE**

1. Now that we have showed you how a little money can grow into a lot, let's look at ways to cut costs and avoid discretionary spending so you can save.
2. First things first-what is the difference between discretionary and non-discretionary spending?
  - a. Discretionary spending is spending for things that are not necessary to live. This is things such as entertainment, expensive cars, boats, excessive spending on clothing, etc.
  - b. Non-discretionary spending is spending for things that are necessary to live. This is things such as housing, food, clothing, electricity, water, etc.

**SHOW SLIDE 3-4-7 SAVE, SAVE, SAVE**



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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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- c. As you can see, your discretionary spending is where most of your savings can come from. Cut back on these things and you will be surprised at how much you can save.
- 3. One way to begin saving is to reduce your current expenses. Let's look at some way to do this.
  - \$ Comparison shopping
  - \$ Plan your shopping
  - \$ Watch your impulse spending
  - \$ Learn to say no
  - \$ Pay off your debts and use only one or two credit cards with low interest rates for big purchases
  - \$ Monitor ATM withdrawals closely. Decide how much you will take out each week and make it last.
- 4. Account for your money. People who know where their money goes spend far less and save more. Keep a little notebook, a page in your planner or in an appropriate computer program to record your small cash purchases and track your expenses.
- 5. Let's look at some real world examples of how you can cut costs and save money.

**EMPHASIZE THAT YOU DO NOT NEED THESE THINGS TO SURVIVE! IT WILL BE A TRADE OFF-THE EXTRAS THAT YOU ENJOY NOW FOR THE MONEY YOU WILL HAVE WHEN YOU SAVE FOR MANY YEARS**

**SHOW SLIDE 3-4-8 THINK SAVINGS**

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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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- \$ Do you really need all those movie channels on cable? If you have all four movie packages, you could save money by canceling all of them, or at least 3. Savings-\$20-40 per month.
- \$ If you are a smoker who smokes one pack per day, you could save money and your health by quitting smoking. Savings-\$3 per day or \$90 per month.
- \$ If you eat out for lunch every day of the week, you could save money by bringing your lunch at least 2 days a week. Savings-at least \$5 per day or \$40 per month.

6. Many people spend a lot of their money for entertainment. If you cut back your dining out, movies, night clubs, and other forms of entertainment-you will be amazed at the savings.

*'Not a million, but not too shabby'*

*What would it take to reach a million?*

More money each month, more time, more interest

**B. Keys to successful savings**

1. **Start as early as possible** – The sooner you begin to put money aside, the longer your money will be working for you.

**SHOW SLIDE 3-4-9 OTHER WAYS TO SAVE**

**SHOW SLIDE 3-4-10 KEYS TO SAVINGS**

2. **Make compound interest work for you** –  
Make money already invested earn even more money.
3. **Rates of return over time** – Using our earlier example of \$50, remember that there are differences in rates of return. The greater the rate of return and the longer your money works for you, the more you will earn.

*'The message. . .save regularly and leave it alone to grow.'*

#### C. Saving and Investing Tools

##### 1. Regular Savings Account

- a. Guaranteed up to \$100,000 if federally insured.
- b. No restrictions on withdrawal.
- c. Generally carries lowest rates of interest.

##### 2. Certificates of Deposit (CDs) or Time

**Deposits-** are a debt instrument from a bank or savings institution that has a set maturity date. They allow you to lock in an interest rate for a specific period of time.

- a. Same guarantee as savings.
- b. Invested for a fixed period, usually 6 months to 5 years.
- c. Higher yield than normal savings account.

**SHOW SLIDE 3-4-11 SAVING AND INVESTING TOOLS**

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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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- d. If you withdraw money from the CD before it matures, you are likely to be charged an early-withdrawal penalty, often three months interest.
  - e. Generally, the longer you commit your money, the higher the interest paid will be.
  - f. There is never a fee to purchase a CD.
3. **Money Market Accounts (MMA)**- are accounts in which your money is reinvested in the buying and selling of short-term investments, including Treasury bills, a variety of bonds, and other debt issued by corporations and governments.
- a. Safe and liquid, which means they can be sold readily for their full cash value.
  - b. Account insured for up to \$100,000.
  - c. All of them mature in a year or less.
  - d. Generally no restrictions on withdrawals.
  - e. May be a large minimum deposit or minimum balance required.
  - f. Better rate of interest than regular savings accounts and you can usually write a limited number of checks per month or have money transferred to a checking account.

4. **Bonds-** are promissory notes or IOUs issued by a corporation or government to its lenders.
- a. A bond is evidence of a debt on which the issuing company usually promises to pay the bondholder a specified amount of interest at intervals over a specified length of time, and to repay the original loan on the expiration date.
  - b. For example, say you lend out \$1000 for 10 years in return for a yearly payment of 7% interest.
  - c. Here's how that arrangement translates into bond terms. You didn't make a loan, you bought a bond. The \$1000 of principal is the face value of the bond, the yearly interest payment is its coupon, and the length of the bond, 10 years, is the bond's maturity.
  - d. Unlike stocks, bonds will give you a definite return on your investment. That certainly makes a bond ideal for people who want to increase their money without risking principal.
  - e. A bond represents debt, therefore its holder is a creditor of the corporation and not a part owner.

5. **U.S. Savings Bonds**- are like Treasury securities for small investors.
- a. They come in small denominations and are absolutely safe with respect to payment of interest and principal.
  - b. They involve no transaction costs.
  - c. Interest earned from savings bonds is exempt from state and local taxes. You must pay federal tax on the earnings, but you have the option of deferring these taxes until the bond matures.
  - d. Bond proceeds used for qualified educational expenses may be tax exempt.
6. **Stock**- is a certificate (called a 'share') that shows that you own a small fraction of a corporation.
- a. When you buy a stock, you are paying for a small percentage that the company owns.
  - b. When you own stock, you are referred to as a shareholder or a stockholder.
  - c. The benefit of owning stock in a corporation is that whenever the corporation profits, you profit as well.
  - d. The downside to this is that when the corporation loses profit, so do you.

**SHOW SLIDE 3-4-12 SAVING AND INVESTING TOOLS II**

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>sell</p> <p>7. <b>Mutual Funds</b>- are a portfolio of stocks, bonds, or other securities administered by a team of one or more managers from an investment company who make buy and sell decisions on component securities.</p> <ul style="list-style-type: none"> <li>a. Good choice for investors.</li> <li>b. A mutual fund combines the money of many people who have similar investment goals.</li> <li>c. This system allows small investors to participate in the reduced risk of a large and diverse portfolio that they could not otherwise build themselves.</li> <li>d. The also have the benefit of professional managers overseeing their money who have the time and expertise to analyze and pick securities.</li> </ul> <p>8. <b>Real Estate</b>- income properties are rental properties ranging from raw land leased for drilling, grazing, or farming to single-family dwellings, duplexes, apartment complexes, and office buildings.</p> <ul style="list-style-type: none"> <li>a. Cash flow generated from income properties is treated as income for tax purposes unless the property is sold, when profits are taxed as capital gains.</li> </ul>	

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<ul style="list-style-type: none"> <li>b. Most real estate experts say there is no such thing as getting rich quickly in real estate. But there is an endless amount of get-rich-quick programs presented to the public, that people need to be careful of.</li> <li>c. Deals that sound too good to be true, often are.</li> </ul> <p>9. <b>Individual Retirement Accounts (IRAs)</b>- are retirement accounts with tax advantages.</p> <ul style="list-style-type: none"> <li>a. Individuals may contribute up to \$2000 annually as long as they have earned \$2000 in that year.</li> <li>b. The investment grows tax-free until it is withdrawn.</li> <li>c. You can't withdraw until age 59 1/2 without penalty unless death or disability.</li> <li>d. You must begin withdrawals by the time you are 70 1/2 or you will get a 50% penalty and taxed on full amount.</li> <li>e. There are several different types of IRAs such as the Education and Roth. Do your homework.</li> </ul> <p>10. <b>Thrift Savings Plan (TSP)</b>- a defined contribution plan for all military personnel set to begin on October 9, 2001. This will be open to all active duty military, regardless of when they came on active duty or which retirement</p>	<p><b>SHOW SLIDE 3-4-13 THRIFT SAVINGS PLAN</b></p>



system they may be covered by. There may be a brief time-in-service requirement-most likely 6 months or less-before becoming eligible.

- a. Individuals may contribute 7% of base pay per month plus the total amount of any special pays or bonuses into this account. This amount may be increased 1% per year.
- b. Contributions come from pre-tax pay, will not show up as part of wages on a W-2, and the individual will not pay taxes on the account until the money is withdrawn.
- c. The maximum contribution per year is \$10,500 per employee per year. There is no government match for military TSP.
- d. No monies can be withdrawn while on active duty. Upon separation or retirement, the individual can take the money in cash (minus tax withholding), keep the money in TSP until retirement, or transfer the entire amount to a 401(k) or Traditional IRA.
- e. There are substantial penalties for taking the money out entirely prior to age 59 ½
- f. While a service member remains on active duty, there are options for securing relatively low-cost loans from the plan.

**SHOW SLIDE 3-4-14 THRIFT SAVINGS PLAN II**

- g. TSP has several investment options. They include:
  - \$ The “C” Fund- This is the Common Stock Index Investment Fund, which invests in stocks in the S & P 500 Index.
  - \$ The “F” Fund- This is the Fixed Income Investment Fund, which invests in government and corporate bonds and is designed to track the Lehman Brothers US Aggregate (LBA) bond index.
  - \$ The “G” Fund- This is the Government Securities Investment Fund, which invests in special, non-traded US Treasury securities guaranteed against any loss.
- h. There are also two new options that will begin operation this year. They are:
  - \$ The “I” Fund- This is the International Stock Index Fund, which will invest entirely in non-U.S. companies.
  - \$ The “S” Fund- This is the Smaller Company Stock Index Fund, which will invest in small and medium size companies in the U.S.

**SHOW SLIDE 3-4-15 THRIFT SAVINGS PLAN III**

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>i. TSP is participant directed and each individual will be able to choose which of these 5 funds they wish their monthly contribution to go to. They will also be able to transfer money from one fund to another on a periodic basis.</p> <p>11. <b>CSB/REDUX</b> – REDUX is a retirement plan that applies to anyone entering active duty after 1 August 1986. This plan uses a different computation formula to figure the amount of retirement pay.</p> <p>a. The retirement multiplier is reduced for anyone retiring with less than 30 years of service; it was cut to 40% for those retiring at 20 years. The retirement multiplier is the percentage used to figure your retirement pay. The multiplier is increased at 3.5% for each additional year of service; the longer a service member stays in, the smaller the overall education under this plan.</p> <p>b. Another major change with REDUX is that all annual cost of living raises are based on the CPI <b>minus 1%</b> each year instead of a full COLA.</p> <p>c. All of these things represent a significant reduction in benefits-up to a 25% loss (over \$250,000 in lifetime retired pay)</p>	<p><b>For more information on TSP, contact your command financial specialist.</b></p> <p><b>SHOW SLIDE 3-4-16 CSB/REDUX</b></p> <p><b>SHOW SLIDE 3-4-17 CSB/REDUX 11</b></p>

for anyone retiring with between 20 and 22 years of service.

- d. CSB or Career Service Bonus is a one time, lump sum \$30,000 bonus to be paid in full at the 15 year point. The bonus is fully taxable.
- e. REDUX and CSB is a package deal.
- f. Those who elect CSB and REDUX must remain on active duty until 20 years or pay back a portion of the bonus.

#### **VIII. STRATEGIES AND PRACTICAL TIPS**

- A. Spend less than you earn.
- B. Make your money work as hard as you do.
- C. Make sure your money is working for you and not against you.
- D. Remember if you don't see it, you don't spend it.
- E. Create savings and investment goals.
- F. Use the allotment system for major Payments and savings. Discuss options with your disbursing officer.
- G. Shop wisely before choosing a bank. Many service members use a Defense Credit Union. Some of the things to look for include:
  - \$ Minimum balance requirements on checking account
  - \$ Fee for credit cards
  - \$ Loan interest rate

#### **SHOW SLIDE 3-4-18 STRATEGY AND PRACTICAL TIPS**



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**DISCUSSION POINT**

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**RELATED INSTRUCTOR ACTIVITY**

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\$ When you take an honest inward look at yourself regarding your spending and savings habits.

\$ When your personal financial management reflects a clear recognition of and execution of your own, and the Navy's Core Values.

B. Core Values simply applied means,

\$ Honor – True to self regarding debt, spending, and saving.

\$ Courage – To live within your means

\$ Commitment – To stay financially free

**X. SUMMARY**

In this lesson we have covered:

A. The Navy's Personal Financial Management Program.

B. Savings, why it is good, and how to do it.

C. Different types of saving and investing tools.

D. Recognizing Core Values in your financial responsibility.

**Footnote:**

Personal Finances are just that --- Personal, but there are resources and people to help you in your financial planning. Spending wisely, paying your debts, and saving and investing are up to you!

*The payoff depends on which track you take.*

**SHOW SLIDE 3-4-20 SUMMARY**